

Statement of the American Petroleum Institute

Submitted to

The U.S. House of Representatives
Committee on Agriculture
Subcommittee on Conservation, Credit,
Rural Development and Research

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American Petroleum Institute
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The American Petroleum Institute (API) is pleased to have the opportunity to present a statement on energy supply and demand issues affecting the agricultural sector of the U.S. economy. We also welcome this opportunity to discuss how the current energy situation developed as well as the energy situation in the United States over the next decade – and how all this points to the need for a new national energy policy for the United States. API is a national trade association representing more than 400 companies engaged in all sectors of the U.S. oil and natural gas industry.

The events of the past year – heating oil logistical problems in New England, tight gasoline supplies in the Midwest, super-heated demand for natural gas and California electric power disruptions -- have forced the nation – including the agricultural community -- to start thinking comprehensively about the energy issues facing our country. In fact, the farming and ranching community has been especially hard hit by these shocks -- as have most of the nation's non-agricultural rural areas as the prices of natural gas, diesel fuel, propane, fertilizer and electricity have soared.

Last year's problems were merely harbingers of what we may expect if our nation and its leaders do not get serious about looking for long-term solutions to our energy needs. Already this year we are experiencing a second set of price spikes in gasoline caused by tight market conditions for gasoline. Unless we realistically address these issues in an effective national energy policy, these shocks may continue with increasing frequency.

We wish to emphasize one important point: American consumers can have reliable and affordable energy supplies and a clean environment. This is not an either-or situation. We are confident that, with the proper changes in the policy arena, we can help keep the nation supplied with fuel while at the same time continuing to improve our technology for the future -- technology that will ensure additional environmental gains. Moreover, we recognize that renewable energy, energy efficiency and cost-effective energy conservation are critical components of an effective national energy policy.

The challenge before us is clear: Department of Energy has recently forecast U.S. energy consumption between 1999 and 2020. While natural gas will rise from 23 percent of consumption in 1999 to 28 percent in 2020, oil will maintain its current 40 percent share. Most recent energy studies agree that this share is likely to continue well into this century – even with strong increases in energy efficiency and a rapid infusion of new technology.

Thus, we need to focus on our future needs for affordable oil and natural gas. Renewables used in gasoline – such as ethanol – play an important role and will continue to grow significantly well into the future. Independent studies¹ support a positive outlook for the market

¹ "Estimating Refining Impacts of Revised Oxygenate Requirements for Gasoline", Oak Ridge National Laboratory Studies for U.S. Department of Energy Office of Policy, May-August 1999. "California Issues –

growth of ethanol – given the potential phase-out of MTBE – over the next decade without the need for costly mandates that can hamper supplies. Northeast ethanol demand is estimated to exceed 550 million gallons per year given withdrawal of MTBE from the market while annual ethanol demand in California is estimated to reach 670 million gallons. This represents a 75 percent increase in demand for ethanol over current use without the need for ethanol mandates. The reason for such significant potential expansion is that many refiners view ethanol as a valued blendstock and will likely increase its use, taking into account all of ethanol's advantages and disadvantages, including its availability, the supply and distribution system and blending challenges. Of critical importance, however, is to avoid mandates thereby giving refiners the flexibility they need to use ethanol in markets, and during seasons, that make sense.

In addition, we must not mislead the American people that new and dramatically cheaper sources of other renewable fuels are available just around the corner. History has demonstrated otherwise. Dashed hopes have led to the waste of billions of dollars on government efforts to develop and promote so-called renewable and alternative fuels that turned out to be neither economical nor readily available.

The current gasoline situation points out the problems we face. Because we have been running the refineries at high rates of output for winter fuels, gasoline production so far this year is 1.7 percent lower than last year. At the same time this year's gasoline demand is up 1.6 percent from last year's. Also, imports of gasoline are 7 percent lower than last year. As a result of demand being greater than supply and the required inventory reductions to meet the EPA summer-gasoline mandates, gasoline inventories are lower than last year's relatively low levels. These conditions have resulted in price volatility, especially in the Midwest. The refineries are now finishing their required maintenance and have increased production of gasoline during the recent four weeks. If the system can continue to work smoothly, a significant build up in gasoline inventories to be ready for the summer driving season is possible.

Another factor that has increased the cost of gasoline is the cost of crude oil. OPEC has reduced its output twice this year already. As a result, crude oil prices have risen since mid-March. The United States is becoming more and more dependent on imported oil. This dependency now amounts to about 57 percent of U.S. oil demand. DOE projects that 64 percent of oil demand will be met by imports in 2020. In order to ensure reliable and secure sources of oil, we must diversify the sources of our supplies, both domestic and foreign, and increase the volumes of both. To do this, we must remove the barriers that currently impede the U.S. oil and natural gas industry's ability to compete on a level playing field both domestically and abroad.

Domestically, access to federal government non-park lands has become an acute problem. Clearly, we must maintain access to those potentially oil- and natural gas-rich offshore areas now open to development in the Gulf of Mexico and elsewhere – and provide access to additional offshore areas now off-limits.

The potentially vast oil and gas reserves offshore can be produced cleanly because advances in technology have made offshore operations safer than ever. For the 1980-1999 period, 7.4 billion barrels of oil were produced in the OCS with less than 0.001 percent spilled—a 99.999 percent near perfect record.

Opportunities Abroad

While the United States has strong strategic and economic interests in maintaining a vibrant domestic oil and natural gas industry, we also need a wide diversity of international supplies. Regrettably, the U.S. oil and gas industry's opportunities abroad have been threatened by two U.S. policies. First is the alarming tendency to use unilateral economic sanctions – despite the evidence that they don't work -- against oil producing countries as an instrument of foreign policy.

In recent years, unilateral economic sanctions have increasingly become the policy tool of choice in the conduct of U.S. foreign policy. One of the favorite targets of these recent sanctions has been major oil-producing countries. The U.S. currently has sanctions in place against countries comprising over 10 percent of world oil production and 16 percent of estimated remaining oil resources.

U.S. policymakers face a dilemma. Growing supplies of crude oil will be required to sustain world economic prosperity, and diverse, ample foreign supplies are needed to help ensure our own country's economic growth. The drive to impose unilateral sanctions is an obstacle to both of these objectives.

The second policy is the adverse tax treatment, including exposure to double taxation, of foreign source income of U.S. oil and gas and other multi-national companies. The U.S. international tax regime imposes a substantial economic burden on U.S. multinational companies, and to an even greater degree on U.S. oil and gas companies by exposing them to potential double taxation. That is, the payment of tax on foreign-source income to both the host country and the United States.

In addition, the complexity of the U.S. tax rules imposes significant compliance costs. As a result, U.S. oil and gas companies are forced to forego foreign exploration and development projects based on lower projected after-tax rates of return, or they are preempted in bids for overseas investments by global competition not subject to such complex rules. Congress can help to stem further losses in the global competitive position of the U.S. oil and gas industry by adopting tax measures that allow U.S. oil and gas companies to compete more effectively both at home and in the international marketplace.

Infrastructure Needs

Even if we obtain all the oil we need – as difficult and uncertain a goal as that may be -- our energy supply would still be under an enormous strain. That's because the squeeze between refinery capacity and refinery utilization is growing. As hard as we are working our refineries, we are losing ground to demand. While environmental requirements now in place are giving us the most environmentally sensitive fuels ever manufactured, these requirements have drastically reduced refinery flexibility and further tightened the U.S. supply situation.

In June 2000, the National Petroleum Council issued a report entitled "U.S. Petroleum Refining – Assuring the Adequacy and Affordability of Cleaner Fuels." The study assessed government policies and actions that would affect product supply and refinery viability. It concluded that the refining and distribution industry would be significantly challenged to meet the increasing domestic light petroleum product demand with the substantial changes in fuel quality specifications recently promulgated and currently being considered. The timing and size of the necessary refinery and distribution investments to reduce sulfur in gasoline and diesel, eliminate MTBE, and make other product specification changes such as reducing toxic emissions

from vehicles, are unprecedented in the petroleum industry. Large investments will be required at essentially all domestic refineries and many product terminals.

Refinery capacity utilization averaged 92.6 percent in 2000. At peak levels of seasonal demand, it topped 95 percent. This compares to an average capacity utilization rate in other industries of 82 percent. Refinery capacity utilization is high because our capacity is below what it was 20 years ago. Recent increases have not kept up with the growth in demand. We are finding it difficult to further expand refining capacity; our access to product imports will likely be limited because tightening U.S. fuel specifications and the proliferation of boutique fuels make it more difficult for foreign producers to meet the U.S. demand for refined products.

Clearly, we need more refinery capacity. Increased regulation of refineries is a major reason refinery capacity has not kept up with demand. In fact, virtually all the investment dollars available in the next several years will be used to comply with new gasoline and diesel regulations, and thus will be unavailable for refinery capacity expansion projects. We haven't built a major new refinery in this country for more than 20 years. And we actually lost a refinery recently when Premcor closed its refinery in Illinois – in large part because of the company's concerns over the large investments required over the next several years to comply with new EPA sulfur regulations for gasoline and diesel fuel.

Refinery flexibility to meet demand has been increasingly hamstrung by the plethora of new regulations – and this situation seems likely to only get worse, not better.

Permitting is a major concern in the downstream sector. Complex, time-consuming and often conflicting permitting requirements at the federal, state and local levels greatly limit the ability of refiners to increase capacity – and it also inhibits efforts to increase pipeline capacity. The oil pipeline system in the United States was built a few hundred miles at a time to the approximately 200,000 miles that exist today for moving crude oil to refineries and moving refined products to consumers, but the increased demand and proliferation of fuels have resulted in a system that is approaching maximum capacity.

The proliferation of so-called boutique fuels is a major factor in today's energy situation. The Clean Air Act Amendments require state implementation plans under which individual metropolitan areas create their own fuels to meet clean air requirements. The attached chart shows how there are 14 different types of gasoline now in use because of clean air requirements – and each of these gasolines has three different grades, so, in reality, there are 45 different gasolines.

This balkanization of our fuels network greatly reduces refinery flexibility, because with 45 different gasolines, only several refineries can produce each fuel. Refineries have less flexibility to deal with shortfalls or other problems that may occur. Pipelines also have less flexibility as more separate fuel batches must be maintained on-spec and delivered. Moreover, the reduced flexibility means that accidents and down-time for maintenance can have a much more disruptive impact on the flow of supply. While our companies are working hard to supply these required fuels, further proliferation of such specialized fuels will exacerbate the overall supply problem. To minimize potential adverse effects of further regulation, in addition to considering environmental issues, government must take into account distribution and supply issues, as well as potential cost issues whenever contemplating new fuel requirements.

Natural Gas

If we are to have an effective national energy policy, we must also recognize the steadily growing role of natural gas in meeting our energy needs. This is of particular importance to the agricultural and rural communities because of their heavy reliance on propane to fuel tractors

and irrigation engines, to heat buildings, dry crops, cure tobacco and in the breeding of poultry. As a product of both crude oil refining and natural gas processing, propane is affected by anything that affects these processes. Any disruptive influence on these processes often has a direct and equally disruptive effect on domestic propane supply and prices.

Natural gas is a clean, safe, efficient and reliable fuel. The landmark natural gas study issued a year ago by the National Petroleum Council – a DOE advisory committee – projected that producers would have to invest about \$658 billion in upstream capital between 1999 and 2015 to meet the growth in gas demand.

The growing demand underscores the urgent need for increased access to potentially gas-rich government lands. However, most government lands with the best prospects for new gas discoveries are off limits to development: 100 percent of resources offshore on both coasts; 56 percent of the eastern Gulf of Mexico resources; and 40 percent of the Rocky Mountain region resources. Clearly, we cannot increase our reliance on natural gas, while continuing to prevent development of these potentially vast gas resources within our borders.

The Need for Access

The U.S. oil and gas industry does not ask to drill on parklands or in wilderness areas set aside by acts of Congress. Rather, we seek access to areas offshore, in Alaska and in the American West that have been designated as “multiple-use” by Congress so that numerous activities can take place there.

Most of these multiple-use areas are simply vast expanses of nondescript federal lands. However, because they lack the beauty and grandeur of the Grand Canyon or the Grand Tetons does not mean that we treat them with less respect than we do any other lands entrusted to us by the government, or by private landowners. Most people driving near or hiking in one of these areas would be hard-pressed to locate one of our facilities once the drilling rig is removed. Safety and environmental protection are critical concerns, regardless of the location of drilling, and we strive to return the land to its original condition once drilling and production cease.

Yet, despite our record of sound stewardship, President Clinton used his executive powers under the Antiquities Act to bar oil and gas exploration and other activities on vast regions of government lands.

For example, the designation of the Grand Staircase-Escalante Monument in Utah in 1996 summarily withdrew promising valid oil and gas leases on state lands without even notice to or consultation with state and local authorities, or affected communities. Likewise, the U.S. Forest Service recently banned our companies from exploring for oil and natural gas on promising government lands when it published rules to bar road building on nearly 60 million acres in the Forest System that, according to a Department of Energy study, could hold 11 trillion cubic feet of natural gas.

In the lower 48 states, a study by the Cooperating Associations Forum found that federal lease acreage available for oil and gas exploration and production in eight Western states (California, Colorado, Montana, Nevada, New Mexico, North Dakota, Utah and Wyoming) decreased by more than 60 percent between 1983 and 1997 – and that does not count the major land withdrawals, such as Monument designations, since 1997.

Approximately 205 million acres of federal lands in these states are under the control of two federal agencies with broad discretionary powers. The Bureau of Land Management (BLM), whose land management planning authority is derived from the FLPMA of 1976, and the U.S. Forest Service (USFS), whose jurisdiction is derived from the National Forest Management Act, administer these federal, non-park lands.

Both agencies are required to manage lands they administer under the congressionally mandated concept of multiple use. Yet, BLM and USFS discretionary actions have withdrawn federal lands from leasing, and long delayed other leasing decisions and project permitting. Congress has directed the BLM and Forest Service to allocate non-wilderness lands for resource use, identify areas that are available for oil and gas leasing, identify important wildlife habitat areas, and inventory wilderness candidate lands among other uses. Each agency has completed land resource management plans for the lands they administer, including lands that are candidates for wilderness designation. Yet, some lands found unsuitable for wilderness designation are, however, managed as “wilderness study areas,” effectively removing approximately 28 million acres inappropriately from consideration for resource development. Further, these agencies often dictate extraordinary lease stipulations as conditions of approval for exploration and production. Stipulations are intended to protect resource values in conjunction with proposed projects, such as exploratory wells, yet many conditions required, such as “no surface occupancy,” essentially preclude exploration and production from occurring.

Moreover, Congress has refused to authorize exploration on the small section of the Arctic National Wildlife Refuge (ANWR) that was specifically set aside by law for exploration in 1980. DOE’s Energy Information Administration estimates that the ANWR coastal plain contains between 5.7 billion and 16 billion barrels of technically recoverable oil. The coastal plain provides the best prospect in North America for a new giant, Prudhoe Bay-sized oil field. As a result of the enormous technological advances of recent years, only an estimated 2,000 acres would be affected by ANWR development – out of the 1.5 million-acre coastal plain and the total ANWR area of 19.8 million acres. Moreover, Prudhoe Bay oil operations, located 60 miles to the west of ANWR, have been underway for nearly a quarter century and have produced more than 10 billion barrels of oil during that time. Prudhoe Bay is among the most environmentally sensitive oil operations in the world. For example, the Central Arctic caribou herd at Prudhoe Bay has grown from 5,000 to 27,000 over the last 25 years. The industry’s North Slope record provides overwhelming evidence that ANWR coastal plain development would not be harmful to the Arctic ecology and wildlife.

We have heard, repeatedly, the charge that ANWR represents only 6 months (or some finite amount) of U.S. consumption. There are several analyses that put this erroneous charge in perspective.

The United States consumes 20 million barrels of oil a day. Today, no source supplies more than 8.4 percent (Canada’s share in 2000) of U.S. consumption. Prudhoe Bay, which was estimated to hold 9.6 billion barrels when discovered, represented only 261 days supply. But, in reality, it has supplied an average of 9 percent, and as much as 12 percent, of our daily consumption for the last 24 years. ANWR reserves may be in the same ballpark.

If all the oil in Prudhoe were delivered at once, we would have consumed it in 9 months. That, of course, is a physical impossibility and distorts the true value of oil discoveries.

Prudhoe production, though representing only 9 percent of consumption, has allowed the U.S. to avoid importation of 1.6 million barrels per day, keeping \$289 billion from flowing out of the United States.

And we know that small changes in supply can have dramatic impacts on price. For example, in March 2000, OPEC increased production by 1.7 million barrels per day (2 percent of world supply) and crude oil prices dropped by \$10 a barrel. Thus, a permanent increase in world supply because of ANWR is likely to have a significant impact on world crude oil prices. This

price impact is important since for every dollar decline in world prices, the U.S. import bill declines by \$4 billion per year.

Offshore, the OCS has assumed increasing importance to U.S. energy supply over the past half century. The federal portion of the OCS now supplies 24 percent and 27 percent of the gas produced in the United States. Offshore production promises to play an even more significant role in the future. The Department of Energy forecasts that offshore production will rise to nearly a third of our domestic oil and gas supply within a decade.

Technological revolutions, such as 3-D seismic profiling of promising structures, coupled with astounding computer power and directional drilling techniques which allow numerous reservoirs to be accessed from one drill site have driven down the costs of finding oil and gas. And at the same time these technologies allow development with much less disturbance to the environment. Tremendous advances in our ability to drill and produce in the deep waters of the Gulf have also resulted in vast new reserves being added to our resource base. The Deepwater Royalty Relief Act developed by this Committee, and passed by Congress in 1995, has significantly aided that endeavor. Those in the federal government who are most familiar with our industry have lauded our technological advances.

A 1999 DOE report, *Environmental Benefits of Advanced Oil and Gas Exploration and Production Technology*, stated that, "... innovative E&P approaches are making a difference to the environment. With advanced technologies, the oil and gas industry can pinpoint resources more accurately, extract them more efficiently and with less surface disturbance, minimize associated wastes, and, ultimately, restore sites to original or better condition.... [The industry] has integrated an environmental ethic into its business and culture and operations...[and] has come to recognize that high environmental standards and responsible development are good business...."

However, there is now accumulating evidence that resource depletion is overtaking the effects of technical advances on the cost structure of OCS development. The volume of reserves added per dollar of capital spent in the OCS has been falling steadily since the early 1990s. Because of increased demand, reserves are being depleted at an ever-increasing rate. Because of more efficient extraction technologies, the decline from new gas wells is now estimated to be as high as 40 percent per year.

This does not suggest the imminent collapse of OCS production, but it does suggest that the drilling and capital expenditures required to replace and augment reserves will become increasingly important. We must increase deepwater development, and provide access to areas presently restricted. Currently, presidential moratoria, and annual Interior appropriations bill riders preclude leasing in most of the Eastern Gulf of Mexico, the entire Atlantic and Pacific federal OCS, and portions of offshore Alaska.

Moreover, the "consistency" provisions of the Coastal Zone Management Act (CZMA), under the guise of due process and consultation, have caused serious duplicative and incredibly costly delays to federal OCS leasing and production activities that would have no adverse environmental impacts on states' coastal zones. And regulations issued by the National Oceanic and Atmospheric Administration (NOAA) in the last days of the Clinton Administration appear to add impediments to environmentally compatible energy development in the OCS, contrary to the balancing of competing interests directed by Congress when it enacted the CZMA. Both the summary withdrawal of multiple use government lands without stakeholder consultation under the Antiquities Act, and the endless due process used by opponents to block federal offshore production that does not affect a state's coastal zone are extreme, and must be moderated.

The nation will soon have a great opportunity to augment its reserves. Federal OCS Lease Sale 181 represents a plan for leasing by the Department of the Interior in the Eastern Gulf of Mexico Planning Area. Scheduled since the mid-1990s, Sale 181 is slated to be conducted in December 2001. The sale area is based on comprehensive environmental reviews, and consultations between former Secretary of the Interior Bruce Babbitt and then-Governors Lawton Chiles of Florida and Fob James of Alabama. As such it is already a middle-ground agreement and the deletion of 120 blocks, as has been proposed in S. 596, would seriously undermine the spirit of the good-faith negotiations that led to it. More important, it would significantly reduce the amount of energy – natural gas in particular – that Sale 181 is expected to provide.

Congress in the past several appropriations bills understood the importance of Sale 181 going forward and did not include it in the areas placed off-limits by moratoria. The area available in Sale 181 is estimated by the National Petroleum Council to contain 7.8 trillion cubic feet of natural gas and 1.9 billion barrels of oil. This means that natural gas from the Sale 181 area could satisfy the current electricity needs of Florida's 5.9 million households for the next 13 years. Lastly, the crude oil from the Sale 181 area (most of which is expected to come from the deepwater areas, far removed from the coastline) could fuel 74,000 cars for 20 years.

These resources can be produced cleanly, for advances in technology have made offshore oil and natural gas exploration and production safer than ever. For the 1980-1999 period, 7.4 billion barrels of oil have been produced in the OCS with less than 0.001 percent spilled – a 99.999 percent near perfect record.

We applaud the action taken in the last Congress when it reauthorized the Energy Policy and Conservation Act (EPCA) (Section 604) directing the Departments of the Interior and Energy and the Forest Service to conduct an inventory of the oil and natural gas resources on federal lands and the restrictions that prevent access to these critical resources. We urge Congress to fully fund this inventory in the FY 2002 appropriations bill so that adequate information will be available on resource availability. This is an important step in bringing about increased development of U.S. oil and gas resources and an important component in any effective national energy policy.

The petroleum industry finds and produces the natural gas, moves it through the nation's pipelines, processes it, and delivers it to the distributors. U.S. production has been virtually flat for more than a decade, while demand has steadily grown. Imports have also continued to grow to help meet demand.

Again, the growing demand for natural gas points out the need for increased access to potentially gas-rich government lands.

However, many government lands with the best prospects for new gas discoveries are off limits to development: 100 percent of resources offshore on both coasts; 56 percent of the eastern Gulf of Mexico resources; and 40 percent of the Rocky Mountain region resources. Twenty-one trillion cubic feet (Tcf) are estimated to lie in the federal waters beneath the Pacific, 346 Tcf in the Western states, 43 Tcf in the Eastern Gulf of Mexico, and 31 Tcf beneath the Atlantic OCS. Clearly, we cannot increase our reliance on natural gas, while continuing to prevent development of these potentially vast gas resources within our borders.

Often, getting a lease is not the most significant problem for producers. Difficulties in acquiring permits to drill wells on onshore government lands and overly restrictive lease stipulations are responsible for limiting natural gas production. These are restrictions, such as "no surface occupancy" or seasonal stipulations, that go above and beyond the normal

environmental stipulations and can prevent economic development of the lease without commensurate environmental benefit.

Almost half of the untapped natural gas on multiple-use government lands in the Rockies is in areas either off limits or restricted by this type of stipulation laid down by one federal agency or another.

This information is important because the facts are often ignored and often distorted by those who do not believe greater access to government is needed by our industry. In recent testimony before the House Commerce Committee's Subcommittee on Energy and Mineral Resources, for instance, we heard material distortions by witnesses for the Natural Resources Defense Council (NRDC) and for the Wilderness Society.

In particular, the NRDC witness, in her testimony and in the study submitted by the Wilderness Society witness for the record, concluded that only a small percentage of BLM lands in five western states is off limits to leasing and development.

Those conclusions gloss over the most significant point: the percentage of government lands available for leasing is a meaningless figure without knowing whether the leases can be developed.

In many instances, lessees cannot obtain the permits needed to develop leases. In others, development is rendered uneconomic by unnecessarily restrictive operating stipulations. An appropriate analogy would be leasing a car without a starter motor or keys. Or renting a house and being allowed to use only the roof. Would a person really have a car if he or she cannot drive it? And what good would it do anyone to rent a house if it can't be lived in? Similarly, a lease that cannot be developed is a lease in name only.

The NRDC and Wilderness Society witnesses surgically selected certain data, and omitted other significant data to attempt to prove their inaccurate assertions. For example, while the numbers presented by the Wilderness Society do show that only about 3.5 percent of the BLM lands in Wyoming, Utah, New Mexico, Montana, and Colorado is strictly off limits to development, oil and gas resources in those states are not distributed uniformly across BLM lands. Specifically, while the Wilderness Society says only 3.5 percent of BLM lands are off-limits, the NPC study identifies another 3.2 percent that are subject to No Surface Occupancy. The NPC study indicates that this 6.7 percent of BLM lands represents 15 percent of the BLM natural gas resources, which are either off-limits or significantly impinged.

More important, however, is the role of non-standard lease stipulations. The Wilderness Society's data show that seasonal and other non-standard stipulations restrict access to an additional 32 percent of BLM lands. However, this impacts access to 47 percent of the natural gas resources estimated to exist on BLM lands in the Rockies. When all of these restricted and off-limit BLM lands are combined they total 38.7 percent, affecting 62 percent of the natural gas resources.

Further, BLM is not the only federal land management agency making such restrictions. These witnesses have omitted the U.S. Forest Service, the Bureau of Indian Affairs and the departments of Defense and Energy in their computation of federal multiple-use lands that are restricted to oil and gas development. In total, the National Petroleum Council estimates that some 137 Tcf of natural gas resources lie beneath Federal land in the Rockies that is either off limits to exploration, or heavily restricted. This is 48 percent of the natural gas on Federal land in the region.

In addition to this total, a recent Department of Energy study concluded that more than 11 trillion cubic feet (Tcf) of natural gas was summarily placed off limits late last year alone by the USFS “Roadless” rule.

But stipulations are not the only impediments to bringing the oil and natural gas to America’s consumers. Inadequate agency resources in many BLM offices and required but outdated resource management plans often make it difficult to get drilling permits, seriously delaying viable projects for up to 100 days, or sometimes years. In the Rawlins, Wyoming BLM office, for example, thousands of Applications for Permits to Drill are awaiting action because of manpower shortages. In the Buffalo, Wyoming office, thousands more are not being accepted by BLM because of limitations of the resource management plans (RMP) for the area. This is because the “Reasonable Foreseeable Development” (RFD) figures, estimates of future development, failed to recognize the interest in developing coal bed methane. Updating these RMPs and RFDs takes the BLM two or more years to complete thus preventing any further oil and gas activity in that area until the plans are finished.

With natural gas in short supply, it is essential that industry and government work together to increase production from all areas, including multiple-use government lands. Ultimately, it is the American consumer who is likely to suffer from a failure to address this critical situation.

The NPC study on natural gas referred to earlier also points out that vast reserves of natural gas in the form of coal bed methane (CBM) lie beneath federal lands, especially in Wyoming and Montana. However, BLM’s inability to grant permits in a timely manner has greatly hindered CBM development, and may contribute to further shortfalls in necessary future gas production. In some instances, we recognize that individual BLM offices may be understaffed and therefore are simply unable to efficiently process permitting requests. We therefore support increased funding for BLM to adequately address these critical permitting backlogs.

As supply adjusts to greater demand, liquefied natural gas looks to become a more significant source of natural gas. Liquefied natural gas, largely imported from outside North America, requires a complex infrastructure, including specialized terminals and additional pipelines. If this source of supply is to be relied on more heavily, policy-makers will need to ensure that necessary regulatory and permitting decisions are expedited.

Government decision-makers need to address these problems now and shape a fair and effective national energy policy. That’s why we at API welcome the energy policy initiatives now underway in both Congress and the Administration. However, Americans should understand that it took some 25 years to get into today’s energy situation – and the problems we face will not be solved overnight. Moreover, supply cannot be matched to demand without massive capital investment, construction, and turnover in equipment and this requires long lead times and a predictable public policy pathway for the times ahead.

In order to ensure that these adjustments are made as soon as possible with the least amount of disruption, we must start making the necessary policy decisions now. In that effort and beyond, it is absolutely critical that energy be fully represented at the government decision-making table and that the energy impact of environmental and other decisions be fully considered.

Lessons Learned

We are encouraged about the possibilities for a new era of cooperation between industry, government and consumers to align our nation on a path toward energy stability. We should

caution, however, that we cannot be successful at forging a workable energy policy if we do not learn from the mistakes we have made in the past.

Price controls, allocation schemes, limitations on natural gas use, and massive subsidies to synthetic fuels are all measures that were tried at one time or another because it was believed that they were sure-fire answers to our problems. All of them failed. They failed because the key premise on which these programs were based – namely that oil and gas were nearing exhaustion and that government “guidance” was desirable to safely transition to new energy sources – is now recognized as having been clearly wrong and to have resulted in enormously expensive mistakes.

The wrong energy choices made by government intervention in energy markets increase costs, hurt the nation in terms of lost economic growth, stifled innovation, limited consumer choice and slowed progress in achieving other societal objectives.

Over the past two decades, we have, fortunately, come to rely increasingly on markets to sort out technologies and fuel choices – and markets have moved us impressively forward. Technology has led us to find more oil and gas in more places and in larger quantities than was ever dreamed imaginable 50 years ago. It has led to increased use of natural gas in a wide variety of ways. And, while no viable substitute for oil in transportation has yet arisen, several competing alternative energy sources are no longer being discussed as just fanciful.

Within the decade, fuel cells are likely to begin replacing the internal combustion engine. This will be a long process because of the slow turnover in vehicle population and related infrastructure. In addition, it appears that, at least initially, vehicle fuel cells will be powered by gasoline. Thus, this vital product will continue to be a significant source of energy for the foreseeable future.

We can continue to prosper and grow in this new century, but only if government follows a positive and cooperative approach. Government should recognize the vital role that markets play and avoid the intrusiveness that has proven so damaging in the past. It should provide a level playing field on which fuels can compete – and recognize the cost trade-offs that are so essential in a global economy.

A National Energy Policy

What is needed from government decision-makers is a serious effort to address these problems and shape a fair and effective national energy policy. That’s why we at API welcome the energy policy initiatives now underway in both Congress and the Administration.

A successful national energy policy must be comprehensive in order to be effective. It must seek to ensure enough energy to support economic growth by promoting responsible development of both domestic and foreign resources. It should recognize that sophisticated new technology developed by the oil and natural gas industry greatly reduces adverse impacts on the environment by exploration and production, both onshore and offshore.

A successful national energy policy will recognize that there is no quick fix to our energy problems. It must reflect the reality that we need to increase supplies of all forms of energy to fully support our growing economy. It is important to encourage responsible use of energy and increase supplies of all fuels, including both fossil fuels and alternative fuels.

A successful national energy policy must be flexible to allow companies to adapt to new energy and environmental challenges. It should recognize that our refinery and delivery infrastructure continues to be stretched to its limit, restraining the industry’s capability to meet new energy demands. It should remove unreasonable and complex regulations on cleaner energy

production and transportation to accommodate growth and the continued high demand for energy – and to meet seasonal or unexpected requirements.

A successful national energy policy must rely primarily on the private sector working through free markets, and it must recognize the value of diversified energy sources. To that end, it should encourage competitive trade practices and international investment.

Finally, a successful national energy policy must create a predictable operating and investment environment for energy suppliers. Government must work to create a more stable regulatory environment so that producers can invest with the confidence that they will be able to get a fair return on their investment.

Conclusion

After more than two decades of inaction, the American public can no longer afford the luxury of not coming to grips with U.S. energy needs while maintaining a clean environment. We can, as a nation, do both – and we cannot afford to heed those negativists who tell us otherwise. Meeting U.S. energy needs and protecting the environment are both critical to our nation's continued economic growth – and critical to achieving the future prosperity and wellbeing we all seek.

We thank you again for this opportunity to discuss these issues with you and we look forward to working with you in the coming months.